CORPORATION FILE

CLEVELAND PUBLIC LIBRARY BUSINESS INF BUR. CORPORATION

1960

annual

report

NORTHERN () HIO TELEPHONE (OMPANY YEAR ENDED DECEMBER 31, 1960



1960 annual report

NORTHERN OHIO TELEPHONE COMPANY

117 North Sandusky Street
Bellevue, Ohio
Telephone 482-7201

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Ernst and Ernst

The Annual Meeting of Stockholders
will be held at 2:00 P.M. on May 16, 1961
at the offices of the Company
117 North Sandusky Street
Bellevue, Ohio

Formal Notice will be mailed to All Common Stockholders on April 29, 1961 and proxies will be requested.

NORTHERN OHIO TELEPHONE COMPANY

117 North Sandusky Street, Bellevue, Ohio

DIRECTORS

ALLAN G. AIGLER
Aigler and Aigler, Attorneys
Bellevue

JOHN A. AIGLER General Commercial Superintendent of the Company Bellevue

THOMAS A. BOYD
Executive Vice President-Administration
General Telephone & Electronics Corporation
New York

CHARLES H. CAMPBELL Agent The Equitable Life Assurance Society Ashland

ROBERT T. CAMPBELL Senior Project Engineer The North Electric Manufacturing Co. Galion

LAWRENCE COOK
Lawrence Cook & Company
Cleveland

*HERBERT A. ERF
The H. A. Erf Acoustical Company
Shaker Heights

CHARLES A. HENRY General Traffic Superintendent of the Company Bellevue

*WM. C. HENRY
President and
General Manager of the Company
Norwalk

IRA L. PORTER Retired Oberlin

HERMANN H. THORNTON 16306 Edgecliff Drive Cleveland 11, Ohio

*FRED W. UHLMAN
President
F. W. Uhlman and Company
Bowling Green

FRED G. WILLIAMSON General Plant Superintendent of the Company Bellevue

*JOHN E. WISE President The Citizens National Bank of Norwalk Norwalk

*Executive Committee

OFFICERS

ALLAN G. AIGLER Chairman of the Board

WM. C. HENRY President and General Manager JOHN E. WISE Vice President

WILLIAM H. TODD Secretary and Treasurer

To Our Stockholders:

For the past sixty years and more the primary purpose of a telephone company was the transmission of voice. At first, conversations were local in character, but as transmission was improved and longer circuits were connected together, toll or long distance calling increased tremendously in both the number of calls and the distance. Today many telephone subscribers dial their own long distance calls to all parts of the United States, and soon they will be calling across oceans almost as easily as dialing a local call.

Voice transmission will continue to improve in quality and convenience, but the service we offer is undergoing a rapid and striking change. Telephone companies are becoming "communications companies" for the transmission of a broad variety of non-voice services. Telegraph and teletype services will soon be carried over the telephone network. Various types of telemetering and electrical warning, signalling and remote control devices use our circuits. The next few years will witness the building up of vast networks of telephone circuits for the transmission from electronic comput-



ers, at high speed, of tremendous volumes of data and facsimile for business requirements. These communications services will broaden greatly our activity and should add to our income.

Results for the year 1960 were satisfactory. We continued to gain in number of telephones and in volume of long distance calls, and total revenues reached a new high. Further improvements were made in our service but operating expenses were greater. After payment of dividends on preferred stock, \$1,879,081.70 was earned on the shares of common stock, of which \$2.00 per share was paid in cash dividends, and \$825,609.70 was transferred to surplus as retained earnings.

Revenues Continued To Increase

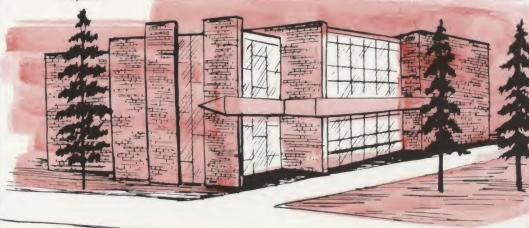
Total operating revenues of the Company reached a new level in 1960 and were \$11,441,594.52, an increase of \$908,400.47, or 8.62 per cent over the previous year.

Revenues from subscribers for local exchange service were up \$311,978.22, due to the increase in number of stations in service, the upgrading of party lines, and the sale of additional lines and special equipment and services to business. Toll service revenue increased \$452,579.28 by reason of the greater usage of long distance service and a more favorable settlement arrangement with the Bell System. Income from Private Line Services was \$81,392.52 greater, chiefly by reason of facilities furnished to the Department of Defense. The sale of additional advertising in our telephone directories increased by \$65,383.02.

Other Income decreased \$13,078.35 due to the liquidation of Government securities over the past year to provide in part for the cost of additions and improvements to plant.

More Telephones and Toll Calls

The number of telephones gained from internal growth in 1960 was 5,035, and compares with a gain of 4,358 stations in the preceding year. In addition an increasing percentage of our subscribers were provided with individual lines and with telephone sets in color. Total telephones in service at the year end were 118,651.



Our subscribers completed 9,500,763 long distance messages during the past twelve months, which was an increase over the number completed in 1959 of 488,660 calls, or 5.42 per cent. On August 7, 1960 direct distance dialing of their long distance calls was made available to an additional twenty-three thousand subscribers of our Norwalk toll center and its tributary exchanges of



Bellevue, Clyde, Attica, Huron, Milan, Monroeville, New London, Plymouth and Willard.

Expenses Up Also

Total operating expenses for the year were in the amount of \$5,483,208.29. This is an increase of \$389,631.25, or 7.65 per cent over the previous year, due chiefly to higher hourly wage rates paid employees and the added cost of maintaining a larger number of telephones and an increased amount of telephone plant and equipment.

Additional personnel required to maintain more automatic central office equipment increased maintenance costs \$31,114.64. Higher wage rates accounted for most of the increase of \$88,881.62 in Traffic expense. Commercial expenses were \$80,273.36 higher, and General Office expenses went up \$24,738.07. Other operating expenses decreased by \$18,393.52.

Depreciation and Taxes

The amount charged to Depreciation in 1960 to provide for the decrease in the value of our telephone plant by reason of wear or obsolescence was \$1,526,-294.79. The composite annual rate of depreciation for the year was 4.26 per cent, and the total charge to this account for the year was \$183,017.08 greater because our plant increased by more than three million dollars. At the year end the balance in the Reserve for Depreciation was \$5,341,551.44, which amount is considered adequate in view of the fact that the total value of telephone plant in service has been replaced new within a period of a little more than eleven years.

The Federal Excise Tax of ten per cent that we are required to add to our subscribers' monthly local and long distance bills was due to expire on June 30th, 1960. However Congress renewed it and the 52 per cent corporation Income Tax until June 30th, 1961, and it now appears likely that revenue requirements of the Federal Government may cause both taxes to be re-enacted again. Unless our subscribers, who pay the tax, express to their representatives in Congress, their dislike for this inequitable World War II Excise Tax, it is likely to become a permanent tax on all telephone service. During 1960 this Company collected from its subscribers, \$9.34 for each telephone in service and remitted to the Federal Treasury \$1,084,137.61 in telephone Excise Taxes.

The increase in community taxes for municipal and school purposes added substantially to our local tax bill, and the amount required to pay Federal Corporation taxes was up in proportion to the increase in Net Income. The provision for all operating taxes, including Ohio Excise Tax, Personal Property, Social Security, Old Age and Corporation Income, amounted to \$3,247,416.51 for 1960. This amounts to \$27.96 per annum for each telephone in service, or \$2.33 per month for taxes. The ten per cent Federal Excise Tax added to our subscribers monthly statement is in addition to the taxes paid by this Company.

Fixed Charges and Net Income

Charges for the interest on our First Mortgage Bonds or Funded Debt and the annual amortization of the debt discount, together with interest on money borrowed, amounted to \$510,355.35. This is \$7,959.49 more than for the previous



year due to the fact that at year end the Company had short-term notes payable of \$750,000.00. Further borrowing will be necessary in 1961, and it is contemplated that a new issue of bonds will be offered for sale toward the end of this year to liquidate loans and to provide funds for future capital expenditures.

Net Income available for dividends and retained earnings for the year 1960 was \$2,214,131.42, as compared with Net Income of \$1,701,782.51 for the year 1959. There was paid during the past year the regular quarterly dividends in full amount on the three issues of preferred stock. This is the sixtieth year in which this Company and its predecessor, The Local Telephone Company, have paid their preferred dividends.

A dividend of \$2.00 per share was paid on the shares of common stock for 1960, as compared to \$1.80 paid in 1959. Common stock dividends were at the regular annual rate of \$1.60 per share, with an extra dividend of 40 cents in lieu of the Company's application to The Public Utilities Commission of Ohio for the payment of a 25 per cent stock dividend or stock split.

Retained earnings added to Surplus for the year were \$825,609.70, which is equivalent to \$1.57 for each share of common stock.



Telephone one half mile underground in mine of United States Gypsum Company near Port Clinton.

On December 23rd, 1960 the Commission issued its Order, partially disallowing the Company's application to pay a 25 per cent stock dividend out of capital surplus. We were advised by our legal counsel that the Order of the Commission is contrary to the Statutes of Ohio, and our application was granted for a re-hearing, which will be held on March 14, 1961. In the event the final decision of The Public Utilities Commission of Ohio is not considered in accordance with the Statutes of this State, an appeal will be taken to the Supreme Court of Ohio.

Additions To Telephone Plant

Gross additions to our plant during the past twelve months were \$4,412,-693.99, with gross removals of \$941,722.89, making a net increase in our plant account of \$3,470,971.10. On December 31st, 1960 the total book value of telephone plant installed was \$39,393,487.43, which is \$332.01 for each telephone in service.

On December 28th our Loudonville exchange, with 1656 telephones, was converted from manual to automatic service, which increased our dial-operated telephones to 99 per cent of our total stations.

Eighteen of our exchanges now provide direct distance dialing of long distance calls to 38 per cent of our subscribers. A new exchange building with new equipment at Lodi will extend DDD to subscribers of this exchange by late summer of this year. In August of 1961 our Oberlin toll center and its three tributary exchanges will also provide their subscribers with the advantages of toll dialing. Contracts have been let for a new district headquarters and exchange building at Port Clinton. New central office equipment to be placed in service will make subscriber toll dialing available early in 1962 to this toll center and two tributary exchanges.

Net capital additions for the year 1961 are expected to be not less than \$2,800,000.

Government Services

On January 1st, 1960 this Company placed in service seven microwave radio stations and provided 21 circuits on a leased basis to the Air Defense Command

We provide communication equipment in FAA's new Air Route Traffic Control Center at Oberlin



as a part of the radar screen, known as SAGE, that shields this Country against enemy air attack. Beginning in May, circuits and equipment were leased to the A.D.C. for a gap filler radar station at another location in our territory as an additional link in the SAGE System.

This Company has provided and maintains the special electronic switching equipment required by the Federal Aviation Agency for their new Air Route Traffic Control Center located at Oberlin, which was placed in operation February 7th, 1961. We have provided 47 air traffic controller positions, and within our operating territory, facilities for 86 private telephone and telegraph lines used to control all commercial air traffic in this F.A.A. area. Also a 300 line PABX has been installed in the Control Center. The specialized and complicated switching equipment for the F.A.A. and the other telephone equipment and private line facilities required for this installation represent an investment by this Company of more than \$550,000.00 on a ten-year lease.

Employees and Wages

At the year end this Company provided employment to 838 employees, 563 women and 275 men. This is an increase of 6 women and 2 men during the year. Wages paid to our personnel, excluding corporate officers, during 1960 were in the total amount of \$2,970,715.54. A very large part of our bi-weekly paychecks add substantially to the economy of the communities that we serve.

On August 26th, 1960 a new Labor Contract, providing increases in hourly rates in line with the Industry pattern, was entered into for a period of one year with a Union representing our Plant Department employees. Our present Traffic Department employees' Contract is for a period of eighteen months ending on March 26th, 1961, but has been extended to August 26th, 1961.



New exchange at Rathbone, southwest of Delaware

Over the past ten years the wages of our Traffic Department employees have increased more than 35 per cent and Plant Department employees' hourly rates have increased 39.8 per cent. During this same period the cost of living index has increased 21.6 per cent.

Employees of a Telephone Company are largely responsible for the quality of the service we render to our subscribers. We have a loyal, conscientious and devoted group of employees, and the Management sincerely expresses to them its appreciation.

In Conclusion

The foregoing is the record for the year that is past. The future lies ahead of us.

The Officers and Directors of this Company are appreciative of the confidence expressed by our stockholders and the public we are privileged to serve. A public utility must be ever mindful of not only the present but the future service requirements and needs of its subscribers. We shall use all diligence in our effort to keep ahead of these growing, changing, challenging communications requirements.

Respectfully submitted,

President

Bellevue, Ohio March 6, 1961 accountants' report

ERNST & ERNST

UNION COMMERCE BUILDING CLEVELAND 14, OHIO

Board of Directors Northern Ohio Telephone Company Bellevue, Ohio

We have examined the balance sheet of Northern Ohio Telephone Company as of December 31, 1960; and the related statements of income, other capital, and retained income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying balance sheet and statements of income, other capital, and retained income present fairly the financial position of Northern Ohio Telephone Company at December 31, 1960, and the results of its operations for the year then ended, in conformity with accounting principles as prescribed by The Public Utilities Commission of Ohio applied on a basis consistent with that of the preceding year.

Ernst & Ernst

Cleveland, Ohio March 1, 1961

NORTHERN OHIO TELEPHON

COMPARATIVE BALANCE SHEET—D

ASSETS		
	Dec. 31, 1960	Dec. 31, 1959
PLANT AND OTHER INVESTMENTS		
Telephone plant in service—Note A	\$39,393,487.43	\$35,922,516.33
Telephone plant under construction—at cost	588,825.52	214,951.86
Other investments	18,937.45	18,798.70
	\$40,001,250.40	\$36,156,266.89
CURRENT ASSETS		
Cash	\$ 745,896.64 47,442.24	\$ 1,100,448.01 51,452.24
(approximate market)	. —0—	465,630.67
Notes and land contracts receivable	37,299.53	35,355.76
1960—\$307,199.30; 1959—\$233,918.73) Amounts due for service, toll settlements, and miscellaneous items, less reserve for uncol- lectible accounts: 1960—\$5,487.81; 1959— \$8,522.01	1,340,783.08	1,138,518.63
Materials and supplies	735,640.38	805,877.22
	\$ 2,907,061.87	\$ 3,597,282.53
DEFERRED CHARGES		
Prepayments	\$ 24,217.27	\$ 25,149.85
Discount on funded debt	88,881.69	93,281.85
	\$ 113,098.96	\$ 118,431.70
	\$43,021,411.23	\$39,871,981.12

ASSETS

OMPANY . BELLEVUE, OHIO

er 31, 1960 and December 31, 1959

LIABILITIES and SHAREHOLDERS' EQUITY

	Dec. 31, 1960	Dec. 31, 1959
SHAREHOLDERS' EQUITY		
Capital stock:		
Preferred Stock — cumulative \$100.00 par		
value; authorized 100,000 shares, issuable in		
series: 5% Class A Preferred Stock (redeemable		
at \$110.00 a share):		
Authorized and outstanding		
12.000 shares	\$ 1,200,000.00	\$ 1,200,000.00
5% Class B Preferred Stock (redeemable	, , ,	, ,, , , , , , , , , , , , , , , , , , ,
at \$105.00 a share):		
Authorized 56,000 shares; outstand-		
ing 1960—27,132 shares; 1959 —26,247 shares	2 71 2 200 00	2 624 700 00
4½% Preferred Stock (redeemable at	2,713,200.00	2,624,700.00
\$105.00 a share):		
Authorized and outstanding 20,000		
shares	2,000,000.00	2,000,000.00
41/4% Preferred Stock (redeemable at		
\$105.00 a share):		
Authorized and outstanding 12,000	1 200 000 00	1 200 000 00
shares	1,200,000.00	1,200,000.00
Common Stock, \$10.00 par value: Authorized 700,000 shares; outstanding		
526,736 shares	5,267,360.00	5,267,360.00
Installments paid on capital stock	2,748.00	2,441.00
	¢12 202 200 00	£12 204 501 00
Other capital	\$12,383,308.00 2,951,529.66	\$12,294,501.00 2,951,529.66
Retained income—Note B	5,168,733.45	4,343,123.75
The transfer of the transfer o		-1,515,125.15
	\$20,503,571.11	\$19,589,154.41
FUNDED DEBT		
First Mortgage Bonds—Note C:		
51/8 % Series, due October 1, 1987	\$ 3,000,000.00	\$ 3,000,000.00
4 % % Series due December 1 1988	3,000,000.00	3,000,000.00
3 1/2 % Series, due November 1, 1982	1,800,000.00	1,800,000.00
31/4% Series, due August 1, 1965	2,752,000.00	2,752,000.00
2 % % Series, due November 1, 1980	1,600,000.00	1,600,000.00
	\$12,152,000.00	\$12,152,000.00
	4.2,.32,000.00	Ψ12,132,000.00
URRENT AND ACCRUED LIABILITIES	£ 750,000,00	•
Notes payable to bank	\$ 750,000.00	\$ -0-
Accounts payable	838,730.66	742,829.78
tlements, subscribers excise tax, and miscel-		
laneous expenses		
Subscribers' advance billings and payments	220,413.33	223,190.60
Taxes accrued	2,491,182.66	2,005,976.07
Unmatured interest and dividends	723,962.03	715,824.47
	\$ 5,024,288.68	¢ 2 607 020 02
DEPRECIATION RESERVE	5,341,551.44	\$ 3,687,820.92 4,443,005.79
	\$43,021,411.23	\$39,871,981.12
See notes to financial statements.		

NORTHERN OHIO TELEPHONE COMPANY COMPARATIVE STATEMENT OF INCOME

Years ended December 31, 1960, and December 31, 1959

OPERATING REVENUES Local service revenues Toll service revenues Directory advertising and sales Miscellaneous revenues Revenues from private lines, rentals, and miscellaneous services	\$ 6,391,338.77 4,397,285.63 508,982.91 179,987.21	\$ 6,079,360.55 3,944,706.35 443,599.89 100,527.26
Less provision for uncollectible revenues	36,000.00*	35,000.00*
	\$11,441,594.52	\$10,533,194.05
OPERATING EXPENSES		
Current maintenance Cost of repairs, inspection, and rearrangements required to keep plant and equipment in good operating condition	\$ 1,316,230.59	\$ 1,285,115.95
Provision for decrease in value of tele- phone plant by reason of wear or obso- lescence This is at the rate of approximately 4% of average investment in depreciable	1,526,294.79	1,343,277.71
plant in service Traffic expenses Operators' wages and other costs in han-	1,414,079.55	1,325,197.93
dling messages Commercial expenses Costs incurred in business relations with customers, directories, advertising, and	620,511.40	540,238.04
pay station commissions General office expenses	353,127.44	328,389.37
Other operating expenses—Note D Pensions, insurance, building and pole rentals, and other operating expenses	252,964.52	271,358.04
TOTAL OPERATING EXPENSES	\$ 5,483,208.29	\$ 5,093,577.04
	\$ 5,958,386.23	\$ 5,439,617.01
Pederal income taxes	\$ 2,259,009.82	\$ 1,790,615.40
County, state excise, social security, and other taxes	988,406.69	1,472,852.45
TOTAL OPERATING TAXES	\$ 3,247,416.51	\$ 3,263,467.85
OTHER INCOME	\$ 2,710,969.72 13,517.05	\$ 2,176,149.16 28,029.21
NET INCOME BEFORE FIXED CHARGES FIXED CHARGES	\$ 2,724,486.77	\$ 2,204,178.37
Interest expense	\$ 505,955.19 4,400.16	\$ 497,994.66 4,401.20
TOTAL FIXED CHARGES	\$ 510,355.35	\$ 502,395.86
NET INCOME	\$ 2,214,131.42	\$ 1,701,782.51

See notes to financial statements.

^{*}Indicates red figure.

NORTHERN OHIO TELEPHONE COMPANY

STATEMENTS OF OTHER CAPITAL AND RETAINED INCOME

Year ended December 31, 1960

OTHER CAPITAL

Balance at January 1, 1960, and December 31, 1960	
(no change during year)	\$2,951,529.66
RETAINED INCOME	
Balance at January 1, 1960	\$4,343,123.75
Add net income for the year	2,214,131.42
	\$6,557,255.17
Deduct:	
Cash dividends declared:	
5% Preferred Stock—\$5.00 a share \$ 194,046.04	
4½% Preferred Stock—\$4.50 a share 90,007.18	
41/4 % Preferred Stock—\$4.25 a share 50,996.50	
Common Stock—\$2.00 a share 1,053,472.00	1,388,521.72
Balance at December 31, 1960	\$5,168,733.45

See notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 1960

Note A—Telephone plant in service is stated at amounts fixed by The Public Utilities Commission of Ohio with respect to acquisitions from other companies, and other additions are included at cost as of dates of installation.

Note B—Under the terms of the Tenth Supplemental Indenture dated December 1, 1958, to The First Mortgage Trust Deed, retained income amounting to \$3,270,577.73 is not restricted in payment of cash dividends on Common Stock.

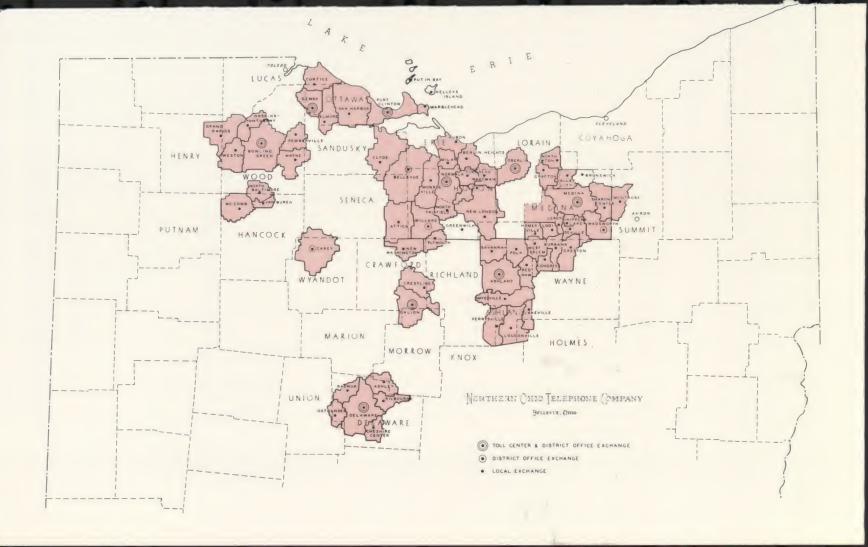
Note C—The First Mortgage Bonds are secured by first mortgage on all telephone plant now owned or hereafter acquired. The Company covenants, while any of such bonds are outstanding, to provide sinking funds by annual payments to the Trustees, in cash or securities, of an amount equal to one per cent of the aggregate principal amount of bonds issued. The Company has the right to substitute 60% of cost or fair value of permanent additions against which additional bonds have not been issued in lieu of cash or securities to meet sinking fund requirements. Sinking fund requirements have been complied with.

Note D—The contribution under the pension plan for employees of the Company amounted to \$142,668.96 for the year 1960, including a portion of past service costs. At December 31, 1960, the estimated unfunded portion of past service costs amounted to approximately \$394,000.00.

EXCHANGES OF NORTHERN OHIO TELEPHONE COMPANY Company Telephone

Frederica	Type of Service	Jan. 1, 1961
Exchange	Automatic	9613
Ashland Ashlev	Automatic	622
Attica	Automatic	810
Bellevue	Automatic	4627
Berlin Heights	Automatic	522
Bowling Green	Automatic	6004
Brunswick	Automatic	3215
Burbank	Automatic	242
Carey	Automatic	1656
Cheshire Center	Automatic	501
Chippewa Lake	Automatic	478
Clyde	Automatic	2972
Congress	Automatic	291
Crestline	Automatic	2526
Creston	Automatic	671
Curtice	Automatic	2365
Delaware	Automatic	7266
Elmore	Automatic	1279
Galion	Automatic	6772
Genoa	Automatic	1403
Grafton	Automatic	758
Grand Rapids	Automatic	679
Greenwich	Automatic	827
Haskins-Tontogany	Automatic	510
Hayesville	Automatic	1076
Homerville	Automatic	142
Huron	Automatic	2340
Kelleys Island	Automatic	116
Kilbourne	Automatic	303
Lakeville	Automatic	161
Leroy	Automatic	420 1285
Lodi	Automatic	
Loudonville	Automatic	1656
Marblehead	Automatic	1022 860
McComb	Automatic	5750
Medina	Automatic	977
Milan	Automatic Automatic	916
Monroeville	Automatic	3594
Montrose	Automatic	1730
New London New Washington	Automatic	705
North Baltimore	Automatic	1181
North Eaton	Automatic	1103
Norwalk	Automatic	6606
Oak Harbor	Automatic	2310
Oberlin	Automatic	4059
Ostrander	Automatic	363
Pemberville	Common Battery	754
Perrysville	Automatic	688
Plymouth	Automatic	841
Polk	Automatic	323
Port Clinton	Automatic	5092
Put-In-Bay	Automatic	252
Radnor	Automatic	217
Red Haw	Automatic	296
Savannah	Automatic	365
Seville	Automatic	681
Sharon Center	Automatic	924
Townsend	Magneto	241
Valley City	Automatic	552
Van Buren	Magneto	257
Wadsworth	Automatic	6039
Wakeman	Automatic	506
Wayne	Automatic	960
Weston	Automatic	772
West Salem	Automatic	479
Willard	Automatic	3128

Total Telephones118,651



Northern ()hio Telephone Company